

***Assessment of the Eligible Expenditures and Conditions  
Precedent for the***

***The Basic Shelter and Environment Housing Guaranty  
with  
NEDCOR Bank Limited***

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## **EXECUTIVE SUMMARY**

### ***Background***

The purpose of this report is to analyse the fulfilment of the conditions precedent of USAID agreement with NEDCOR Bank Limited in terms of the Basic Shelter and Environment Guaranty Programme (BSEGP).

The goal of the BSEGP is to increase asset ownership and economic integration of low-income urban households by improving access to environmentally sustainable and affordable shelter. The programme consists of efforts to demonstrate that market-oriented lending institutions can profitably finance environmentally sound basic shelter solutions for low-income households.

### ***Main findings with respect to audit***

Nedcor has taken drawdowns of \$58 million dollars under the BSEGP and was supposed to justify those drawdowns with \$158 million in loans. Previous assessments in earlier years have justified \$107 million, so this assessment is to review the remaining \$51 million in expenditures, equivalent to 278 million rand.

NEDCOR claimed to have disbursed 17,457 small housing loans in the amount of R185 million (\$32 million) made over the period July 1998 and December 1999. Of these, 94 percent (16,483) were for microloans to cover investments in housing and 6 percent (974) were for mortgages. The average loan sizes were R10,275 and R16,262 respectively. The breakdown among the clients was 89 percent black, 6 percent colored and five percent Asian.

In addition to the small housing loans, Nedcor also provided funding to infrastructure development projects in three towns totalling R91.3 million, equivalent to \$19.5 million, using the appropriate exchange rates at the time of the expenditures. This review is found in Annex 6.

Not surprisingly the largest average loans went to Asians, with coloreds next and blacks with the lowest. Average loans for women were almost identical to the size of loans for men, but women only accounted for 33 percent of the borrowers.

The assessment team carried out two sets of reviews to help assess the fulfillment of the conditions of the guaranty: a file review and direct interviews with clients in the field. A target of 100 interviews was set for each of the three provinces surveyed. In order to ensure that a sufficient number of clients were reached, the team randomly selected 350 clients for file review. Of the 350, the team was able to locate the files of 342 of the clients, which were then reviewed.

Field interviews were attempted with those 342 clients, though the team was only able to actually interview a total of 233 of them. Micro-loan borrowers were interviewed at their place of work, while those with mortgage loans were interviewed at their houses. These latter were the most difficult to reach due to difficulties with finding the houses.

The 109 interviews not included in this analysis either were not available for a variety of reasons: because working on a night shift, absent at work, on leave, or away from home. Sometimes, the borrowers proved uncooperative in completing the survey, their files were not available for review, or else they fell outside the range of the investigation parameters.

About 20 of the 342 files reviewed (6 percent) fell outside of the investigation parameters for acceptance into the programme. If this were the only sample to draw from, the evaluation team might have been concerned. However, as seen in the next section, these clients comprise just a small portion of the total number of small housing loans that NEDCOR has made, so the consultants are comfortable that NEDCOR has actually exceeded the conditions precedent.

### ***Impact assessment***

**NEDCOR.** Nedcor's involvement in housing finance has increased steadily over the past six years. In 1994, their outstanding portfolio of low cost housing loans for disadvantaged people totaled R1.1 billion. As of May 2000, Nedcor had over 78,000 loans outstanding for a portfolio of R3.7 billion. Though over 11,000 loans totaling over R600 million, are currently in arrears, this product is considered to be a profitable one in the NEDCOR portfolio, as demonstrated by the steady increase in the outstanding portfolio. Many of these arrears are technical arrears, waiting for payments to be processed or provident funds to be debited.

In contrast to the previous assessments of this programme, which concluded that NEDCOR was abandoning this market, the People's Bank (a NEDCOR subsidiary) intends to continue lending to this segment of the population. They have a very active microlending programme with companies. In addition, with the acquisition of Pick'n Pay's microlending activities, NEDCOR is entering the microlending market. However, because of the provident fund guarantee, they have been lax in the proper management of the loans, which has an effect on their profitability.

In addition to its continuing interest in developing the market, NEDCOR has continued developing its product line for the low-income client. Its latest product, the People's Personal Loan, is but one more example of its efforts to meet the needs of the historically disadvantaged groups.

**Qualitative improvements.** Most of the clients asserted that their overall access to better quality housing had improved through the programme. Many of the clients also stated that they had improved access to infrastructure (schools, medical facilities, shopping centers, and transport) as well as better utilities and services including plumbing, water and electricity. In addition, there are the intangible benefits that accrue to access to those better services such as better education, improved sanitary conditions and reduced work levels around the house due to labour saving devices.

**Integration into the mainstream economy.** In addition to the qualitative aspects of this programme, it has also played a positive role in terms of introducing many low-income households into the formal banking sector. For many of the clients, this is the first loan that they have taken from a formal institution and to access the financial market, to develop a credit history and to build an asset base to use for future borrowing.

**Affordability.** Generally borrowers seem to be comfortable in paying off their loans. More than 85% of the borrowers expressed the opinion that their loans were affordable. When seen across gender lines, women seem to be more comfortable than men, with 87 % indicating that their loans are affordable, against 85% of men. Seen across the type of loan, 80% of men claim that mortgage loans are affordable, when only 75% of women say the same. By contrast 92% of women indicated that micro-loans were affordable while 86% of men were saying the same. In comparison to the file review, we find that the majority of the borrowers (59 percent) had instalment rates less than 25 percent of their gross income. Even considering that 41 percent of the clients are above the 25 percent cut off rate, the vast majority still consider the loans affordable.

Affordability is also a question of expectations. Since many of the loans reviewed had been made when interest rates were much higher, the recent drop in rates makes them much more affordable to the clients.

**Insurance.** As with the previous assessments, the issue of insurance continues. There are two kinds of insurance required under the programme. The first is life insurance for all loans. The second is maintenance insurance for the mortgage loans. Borrowers are often required to take out a life insurance policy specifically for the loan, even though they may already have one. This leads to double payment of insurance premiums by the borrowers who can ill afford them.

The second, more important insurance issue is for the maintenance contract for the mortgage loans. In this case, the bank acts as the intermediary with the insurance company for the maintenance contract. The borrower rarely understands this link, and believes that the bank is responsible for the maintenance that they are paying for. So it is a surprise to the borrower when s/he does not get satisfaction from the bank when there is a problem.

## ***Conclusions***

The BSEGP has achieved its goal of leading to an increase in ownership of sustainable and affordable shelter by low income urban households. It has empowered many previously disadvantaged South Africans at the lower end of the income level to enter the formal financial sector for the first time and to learn how to leverage additional financial sources from either loans or government subsidies. The combination of entering the formal financial system and acquiring better housing has improved the level of self worth of the clients.

The housing programme has also had a positive impact on the standard of living of most of the target population. On the one hand the great majority of the clients were satisfied with the affordability of the products. On the other hand they have also seen a real improvement in the quality of their life as measured by access to social services (schools, hospitals), improved access to utilities (indoor plumbing, electricity, and roads), and the other benefits of better housing.

At the same time, the programme has helped NEDCOR to innovate and to develop its loan products and portfolio for the target market. NEDCOR has made the loans needed to meet the conditions of the guaranty programme. In fact, they have probably far surpassed the required number and value of loans in their overall lending programme. NEDCOR continues to make affordable housing loans to individuals because they are fully guaranteed by provident funds or retirement plans in the control of the employers.

NEDCOR could improve its interaction with the clients, in particular on the front of credit education – i.e. explaining credit processes to the clients. Many of them are so starved for credit that they agree to anything, then want to understand it later, once they feel the bite of the repayments. NEDCOR's laxness in this regard is not helping either their repayment rate, nor the long-term development of the clients. As the employers often take care of much of the paperwork for the microloans, there is limited involvement by the bank staff in the process, limiting their interaction with the borrower. This latter element leads to slow reaction time on the part of the bank in the case of arrears, hence the high proportion of arrears in the portfolio.

Finally, the programme has also led to a steady improvement in improving equity in the country. It has increased access by women to small loans and has made progress in developing lending programmes in the townships. The programme has also enabled many previously disadvantaged individuals to access the government's housing subsidy programmes, providing even more leverage to the impact of the programme.

### ***Recommendations***

Though the Housing Guarantee project is now over, there are a number of recommendations for NEDCOR in ways that they can improve their own development of their low income housing loan programme.

1. Educating their clients about credit and its proper management remains an important service to be improved upon to build sound long term clients from these borrowers;
2. Separating credit and insurance processes will hopefully eliminate the continuing confusion over who is responsible for the insurance;
3. Make the underwriting insurance companies more accountable and interactive with the clients;
4. Find innovative mechanisms to finance people with business activities or collateral on communal land. While similar to challenges facing financing houses on communal land, this will improve economic integration of the target population; and
5. Develop within NEDCOR the skill and the capacity to provide full customer oriented banking services to low income people.

## **1. BACKGROUND**

The purpose of this report is to analyse the fulfilment of the conditions precedent of USAID agreement with NEDCOR Bank Limited in terms of the Basic Shelter and Environment Guaranty Programme (BSEGP).

The goal of the BSEGP is to increase asset ownership and economic integration of low – income urban households by improving access to environmentally sustainable and affordable shelter. The programme consists of efforts to demonstrate that market-oriented lending institutions can profitably finance environmentally sound basic shelter solutions for low-income households.

USAID signed several agreements with NEDCOR Bank Limited. With respect to the Private Sector Housing Programme (PSHGP), the first programme agreement (674-HG-001-A01), was signed on the 29 of September 1994 for an amount of US\$ 45 million. It was to facilitate private sector financing shelter to historically disadvantaged South Africans residing in urban areas with monthly incomes less than R2, 625 (about US\$ 437 at the prevailing exchange rate) for 80% of eligible expenditures. USAID allowed that 20% of eligible expenditures be attributed to previously disadvantaged South African earning more than R2, 625 per month. The programme was to leverage US\$ 2 from NEDCOR for every US\$1 USAID provided from HG resources which the programme target to a Rand equivalent of R520 million.. This programme gave NEDCOR an opportunity to raise on the US capital market eight-year finance amounting to US\$90 million in early 1995 on the strength of a USAID guaranty.

In return, NEDCOR<sup>1</sup> successfully extended in excess of 31,000 loans valued in excess of R1,1 billion over a period of 16 months to the previously disadvantaged communities in terms of the programme. NEDCOR indicated that this programme was successfully completed. Contractually, NEDCOR had to extend to previously disadvantaged communities, in terms of the agreement, R520 million in mortgage and micro-loans. USAID commissioned an evaluation to that effect and was satisfied with the performance of NEDCOR with regard to PSHGP agreement.

On the 30 August 1995, another programme, the Basic Shelter and Environmental Programme (BSEG), (674-HG002-A01) was signed for an amount of US\$ 58 million with the understanding that NEDCOR will make available in the form of low- cost housing, loans to previously disadvantaged communities, equivalent to US\$ 116 million, leveraging US\$1 worth of loans for every US\$1 worth of USAID guaranty.

After disbursing US\$ 30 million leveraging US\$ 60 million worth of loans, the leveraging requirement was subsequently increased to US\$2.5 for every US\$1 of HG resources, in exchange of less stringent income ceilings. This meant that the remaining US\$ 28 million, were supposed to generate an equivalent in eligible expenditure of US\$ 98 million. This brings the amount of eligible expenditure in rand equivalent from US\$116 million to

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<sup>1</sup>

Fulfillment of Conditions Precedent, Basic Shelter and Environment Guaranty Programme, USAID Project No. 674-HG-002, 3th October 1996.

US\$158 million as sanctioned by amendment no. 2 dated November, 1996.

The objective of the programme was similar to that of the PSHGP except that the qualifying income criteria dropped from R2, 625 to R1, 500 (about US\$ 250 at the prevailing exchange rate) adjustable at the consumer price index rate over the period of the agreement. Also loans to municipal authorities to provide municipal services to target beneficiaries were also permitted per amendment no.4, with retroactive effect, to the Programme Agreement dated 16 August 1999.

**Table 1 Summary of Draws and Justifications of the BSEGP**

<b>Loan Agreement</b>	<b>Draws</b>	<b>Expend ratio</b>	<b>Amount to Justify (US \$)</b>	<b>Amount to Justify (Rand)</b>
	\$30 million	1:1	\$60 million	
	\$28 million	2.5:1	\$98 million	
<b>Totals for loan</b>	<b>\$58 million</b>		<b>\$158 million</b>	<b>760 million R</b>
<b>Evaluations</b>				
1 <sup>st</sup> & 2 <sup>nd</sup> Assessments			\$107 million	R482 million
3 <sup>rd</sup> Assessment			\$51 million	R278 million
• Housing loans			\$31.8 million	R185 million
• Infrastructure			\$19.5 million	R93 million

With respect to BSEGP, NEDCOR claims to have disbursed 17, 457 loans (974 mortgage loans and 16,483 micro loans), valued at R 185 million (US\$ 30.83 million) between July 1998 and December 1999 completing the programme target of US\$ 158 million as illustrated in Annexes 3 and 4.

The whole programme helped finance 68, 596 loans comprising of 2,802 mortgage loans and 65,794 micro loans with a value of R667 million (US\$138.5 million) between September 1995 and December 1999. The balance of US\$ 19.5 million (93 million Rand) was used to finance municipal infrastructure between July 1996 and March 1998.

This assessment covers the period between July 1998 and December 1999 for an amount of US\$ 28 million representing an eligible expenditure R185 million for housing loans under pre-established exchange rates. In addition, municipal infrastructure loans were made in the amount of \$19.5 million to fund electrical power plants and water and sewage infrastructure in three locations. These latter were investigated as well, and the findings are included in Annex 6.

To ascertain the attainment of the programme requirements, USAID appointed ECI to assess compliance in terms of the objectives of the programme with regard to population group, income, gender, location and loan usage. More importantly, USAID required also a formal assessment of the socio-economic impact of the programme with regard to improvement in the quality of life, increased home equity, increased participation and quality of life of women.

## 2. MARKET FOR HOUSING FINANCE

The housing finance market has varied over the years since 1994. The Government of National Unity (GNU) has created a more enabling policy environment and gradually put more resources to increase the financial capacity of low-income people through subsidies and other financing mechanisms. The private sector has committed more resources to affordable housing. Therefore, many changes have occurred in the housing finance market.

Table 1 shows that throughout 1999, property market in the low to moderate income (i.e. properties greater than R10,000 but less than R100,000) was characterised by a fairly high level of activity in both Mpumalanga and Kwa Zulu Natal. The average price varied between R34,000 and R38,900 between the first and the fourth quarter of 1999 indicating a progressive increase quarter after quarter as illustrated in the graph below. The average price for the whole year is R36,000. The number of properties under R100,000 for the whole year was 143,091 against a total number of 273, 939. A comparison between property market under R100, 000 and property market above R100,000 indicates that 52% of properties sold were below R100,000.

**Table 2: Average Property Prices and Transactions for Properties less than R100 000**

Figures are For 1999	Properties > R10.000 and < R100.000								Properties sold < R100,000	Properties sold > R100,000	No. of properties Sold < R100,000 vs Sold > R100.000
	Average price (1999)				No. of Transactions				Total	Total	
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4			
<b>RSA</b>											
<b>Gauteng</b>	32,868	40,790	41,952	46,418	13,561	11,604	11,764	10,120	47,049	60,930	43.6
<b>Free State</b>	42,588	46,554	49,638	50,420	1,029	1,314	1,150	1,082	4,575	4,461	50.6
<b>Mpumalanga</b>	30,257	23,241	22,327	26,299	1,774	4,263	4,583	2,867	13,487	4,297	75.8
<b>North West</b>	39,550	36,890	38,601	44,978	1,293	1,296	1,614	1,140	5,343	4,387	54.9
<b>N Province</b>	36,630	37,420	38,860	42,736	446	418	359	316	1,539	1,844	45.5
<b>N Cape</b>	34,131	35,369	31,601	37,242	457	705	788	588	2,538	1,695	60
<b>E Cape</b>	25,518	29,791	36,831	31,705	3,746	2,611	2,045	2,434	10,836	6,067	64.1
<b>Kwazulu/Natal</b>	24,217	25,096	28,883	29,335	10,099	11,563	7,100	9,010	37,772	14,502	72.3
<b>W Cape</b>	41,170	39,568	36,059	40,877	4,587	5,811	5,785	4,850	21,033	31,584	40
	34,103	34,969	36,084	38,890	36,992	39,585	35,188	31,326	144,172	129,767	53%

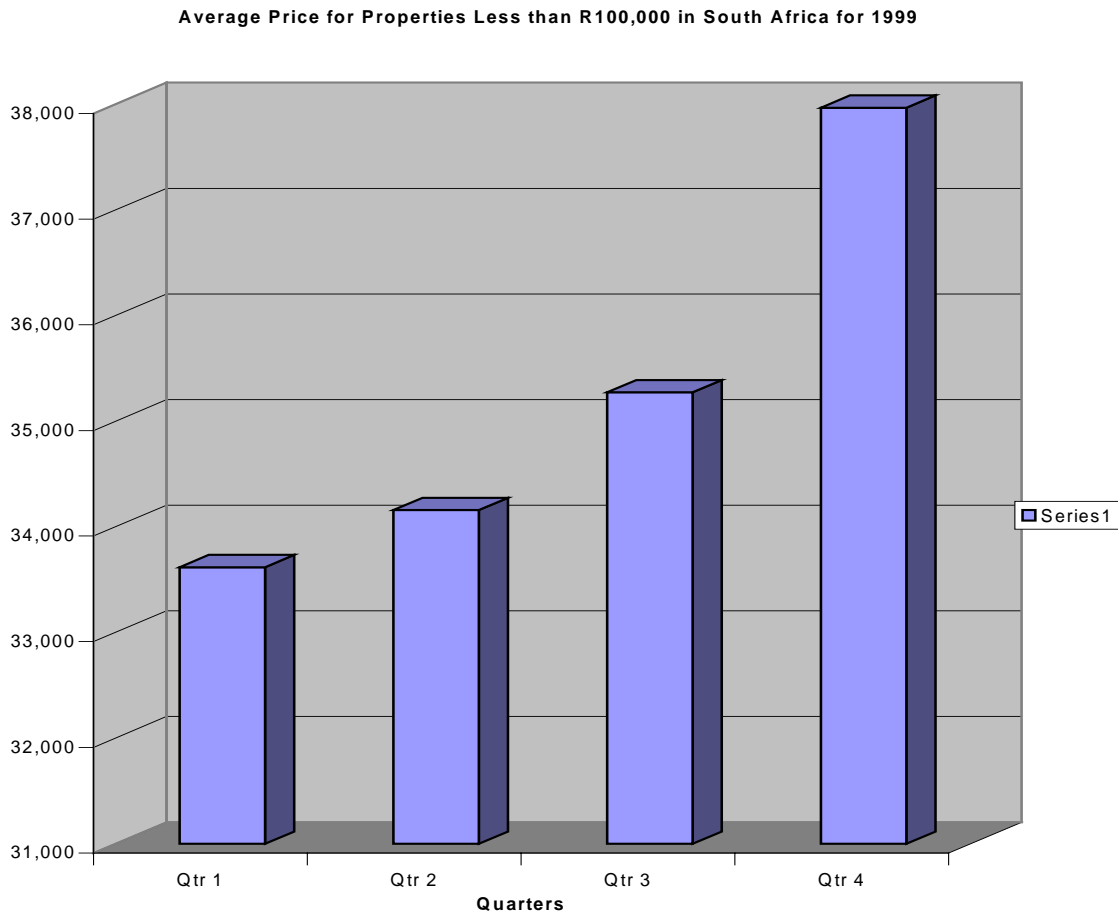
**Source: [www.gatewayhomeloans.co.za/market monitor](http://www.gatewayhomeloans.co.za/market_monitor)**

Indications are that the sources of finance are own finance, small loans and mortgage loans. A question that arises is: are banks finally starting to finance properties with a value below R50,000? Previously, the banking sector has been reluctant to finance houses in that price range. More importantly, banks redlined properties in black townships.

The above table suggests that a willing seller and a willing buyer trend is emerging in this market.

**Figure 1: Average Price for Properties less than 100,000 R in South Africa**

## 2.1 Housing Finance Market Supply



### *The Government*<sup>3</sup>:

From fiscal year 1994/1995 to fiscal year 1998/1999, the government allocated housing funds amounting to R13 billion. These funds were allocated through several mechanisms and the most important has been housing subsidies that have been implemented following the income pattern below:

3. [www.housing.gov.za/full\\_report](http://www.housing.gov.za/full_report).

**Table 3 : Government Housing Subsidy**

<b>BENEFICIARY INCOME PER MONTH</b>	<b>Original Subsidy</b>	<b>Inflation Adjusted Subsidy</b>
Up to R1500	R15000	R16000
R1501 to R2500	R9500	R10000
R2501 to R3500	R5000	R5500
Consolidation Subsidies		
Up to R1500	R7500	R800

For the fiscal year 1998 – 1999, government allocated R2.9 billion to housing subsidy. This was distributed as follows in all the 9 provinces:

<b>Table 4: Capital Subsidy Allocation per Province (Million of Rand)</b>		
Provinces	Amounts	Percent
Gauteng	726	25
Kwa Zulu Natal	570	20
Eastern Cape	389	14
Western Cape	346	12
Northern Province	225	8
Free State	207	7
North West	204	7
Mpumalanga	158	6
Northern Cape	55	2
Total	2880	100

From 1994 up to December 1999, the government housing programme supplied subsidies to help purchase over 1 million houses representing capital expenditure of R13 billion. It is worth noting that several State-financed housing and serviced sites were transferred to tenants without any funds changing hands. This was achieved by means of pricing houses under the discount benefit scheme where often the property's selling price equaled the discount price. In this instance, 1 000 000 households qualified for assistance and only around 86 000 were assisted.

#### *The Private Sector*

The private sector, represented by mainly the banking sector, for the year ending December 1999 supplied R 195.3 billion<sup>4</sup> to the South African economy. Of the total amount contributed by the banking sector, NEDCOR's affordable housing portfolio accounts for R3.7 billion of which more than R1 billion financed low-cost housing.

The other micro lenders, represented by NGO's and other term lenders (which grew in number from 11 to 24), received around R440 million from the National Housing Finance Corporation (NHFC) to on lend to small borrowers. These funds have been complemented by their own funding. It is therefore estimated that close to R200 billion were available in

<sup>4</sup> South African Reserve Bank, 1999 Annual Report

resources to finance housing in South Africa.

## **2.2     *Housing Market Demand***

It is estimated that 5.5 million people live in 1.5 million self-constructed, informal dwellings. To keep up with the growth of the South African population while addressing the current housing backlog, according to the Housing Department, 220 000 new homes need to be built every year. They may be a latent demand of houses but in order to unlock it, it is essential that either potential borrowers have access to either housing subsidies, or to support from employers, or else to collateral for housing loans.

In November 1999, Gateway conducted an independent survey of the large employers to understand their attitude towards housing their employees. The survey found out that 87% of employers wished to promote home ownership among employees; 78% already had housing assistance schemes in place; and, 75% already had retirement fund guaranteed loan schemes in place, but levels of utilisation were lower than expected. Seventy percent reported that retirement funds had been moderately or less utilised for guarantees. Of employees earning less than R3, 500 per month, 52 % had more than R10, 000 in their funds.

On the side of the end user, another nationwide survey of one of the largest industrial retirement funds with over 200, 000 members was also concluded in 1999. Twenty six percent of respondents indicated that they lived in matchbox houses, 6% reported to live in backyard rooms, 18% were living in shacks and 47% were living in other kinds of accommodation. So a total of 53% were living in either matchbox houses, shacks or backyard rooms.

Of the people surveyed, 95% earn between R1, 000 and R6, 000 per month, and 60% were prepared to pay between R150 and R600 per month on a housing loan. Fifty one percent of those surveyed indicated that they were satisfied with their housing situation, thus implying that 49% would like to change their housing situation, reflecting high potential demand for housing.

There is not only a market demand, but also a need for housing for homeless, unemployed people, and farm labourers and other rural people with some kind of dwelling with minimum sanitary conditions.

The bulk of the housing market demand is composed of employed people, self-employed people, and especially migrant workers. Migrant workers are found mainly at mines in single sex hostels, where they are not allowed to live with their families.

## **2.3     *Housing Market Products***

Housing products across financial institutions are similar in the market. But micro-loans tend to be more popular amongst the term lenders and the banking sector because they are more flexible than a mortgage. They are often guaranteed by cash reserves (provident funds or retirement plans) and they are easy to administer and grant. The description below defines the products offered by the NEDCOR subsidiary, The People's Bank, which handles most of

their low-cost housing loans.

### *Mortgage Loans*

- Applicants must be formally employed except where quantifiable employment in the informal sector exists;
- Must earn in excess of R800,00 per month although loans made with respect to this “BSEGP” relate to households with an income of less than R1, 500 per month;
- Re-advances on existing mortgage bonds and micro loans are permitted with in stipulated criteria, provided it is shelter related expenditure utilised to improve living conditions and provide for an increase in the owners building equity of their shelter;
- Maximum repayments should not exceed 25% of gross monthly income excluding overtime and bonuses but may include government or employer’s subsidy;
- Joint application using joint income to qualify for a mortgage is permissible;
- Must provide security in the form of life cover in the excess of the value of the mortgage;
- Other type of collateral are acceptable;
- The terms must long enough to make it affordable;
- Interest rate is prime-linked
- Proof of attendance of the Association of Mortgage Lenders of South Africa Education Course;
- National Home Builders Registration Certificate where applicable;
- Must be Information Trust Corporation (ITC) cleared

### *Micro Loans*

- Applicants must be formally employed except where quantifiable employment in the informal sector exists;
- Must earn in excess of R800,00 per month although loans made with respect to this “BSEGP” relate to **households** with a joint income of less than R1, 500 per month;
- Must belong to a pension or provident fund;
- Re-advances on existing micro loans are permitted with in stipulated criteria, provided it is shelter related expenditure utilised to improve living conditions and provide for an increase in the owners building equity of their shelter;
- Maximum repayments should not exceed 25% of gross monthly income excluding overtime and bonuses but may include government or employer’s subsidy;
- Must provide security in the form of 80% of provident or pension fund withdrawal benefit less 10%;
- Generally the terms are short to medium, up to 7 years;
- Interest rate is prime;
- Employers must commit to payroll deduction monthly repayments from salaries;
- Employers must provide preliminary borrowers screening in terms of stability of employment, affordability, size of the pension or provident fund withdrawal benefit relative to loan requested, and recommend those eligible employees;
- Must be Information Trust Corporation (ITC) cleared.

## **2.4 NEDCOR Housing Market Share**

Prior to the USAID partnership with NEDCOR in 1994, NEDCOR had an exposure of R1.1 billion into the low cost housing market to historically disadvantaged South Africans. In October 1996, NEDCOR's exposure to the same market servicing the previously disadvantaged South Africans had increased by twofold to R2.2 billion with default rates respectively of 3% for micro loans and 5% for mortgages loans.

In May 2000, the affordable housing programme had an outstanding portfolio of 78,326 loans valued at R3.731 billion of which 11,839 loans valued at R622.72 million (20 percent) were in arrears. Even though the arrears are high, the bank considers these products to be profitable as they are guaranteed by employer funds. The bigger issue for NEDCOR is the proper control and monitoring of the loans to improve their repayment rate and reduce their arrears.

## **3 ASSESSMENT PROCESS**

In consultation with NEDCOR and USAID, a survey was designed and administered among NEDCOR's microloan and mortgage loan clients. The consulting team chose a representative, but random sample of 350 clients. The consulting team reviewed 342 files, and 8 remaining files could not be found. From among the 350, the team targeted to interview 300 or 100 per province. The actual interviews conducted, across a sample of microloan and mortgage borrowers and across the provinces were 251. The surveys took place for micro-loan borrowers at their places of work and mortgage loan borrowers at their residences.<sup>5</sup> Interviewees were selected to reflect the demographic makeup of the customer group, with a special effort made to ensure that women were included.

Two data collection tools were used on the field: a questionnaire and a file review form:

- The questionnaire (copy included in Annex 1) first asked for basic demographic information, including name, gender, area / company, account number, and loan size, as well as marital status and number of children. The next question asked how the respondent learned about the loan scheme. Question 3 and then later, question 16 addressed issues of customer satisfaction with the bank's service. The next three questions were designed to determine loan usage as well as the loan spin-off effects in terms of job creation and injection of new resources in the community. The next six questions tried to measure whether the loan had yielded or helped to yield any socio-economic benefits, as measured by the capacity of clients, while paying of their loans, to acquire new assets and telephone services, to access better facilities and social infrastructure, renting out additional rooms, conducting any sort of microenterprise from the premises, or any equity appreciation in the house. Questions 12 to 15 covered affordability and subsidies.

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<sup>5</sup> A subset of microloan borrowers were visited both at work and at their homes to confirm validity of answers, especially in regard to loan usage.

- Interviewers read the questionnaire in the language most familiar to the interviewee, to make clients comfortable, as well as to ensure as high a response rate as possible. Where feasible and in almost all the cases, interviews were conducted in the presence of NEDCOR'S representative. Survey responses were analyzed by province to look for trends among borrowers in the same and across geographic areas. The data were cross-tabulated looking specifically at gender and loan amount as important variables.
- Another data collection tool used was a file review form (copy included in Annex 2). File reviews covered objective and documented information reflecting particular of the borrowers, the time the loans were granted, the terms and conditions of the loans, the securities required, the loan appraisal process, the affordability test and the compliance with mortgage loans to low income people requirements with regard to the Mortgage Association Educational Course attendance and the National Home Builders Registration Council Certificate requirements.

Due to the sensitivity surrounding issues of racial classification, there is no specific analysis done by race; although by field observation all borrowers were black, colored or of Indian decent. Using a combination of the file reviews and explicit questioning in the field, the consulting team is satisfied that the maximum income levels stipulated in the agreements are not being breached.

The consulting team's main contact person for this project at NEDCOR was the Head of Government Affairs, Mr. Mandla Zwane. Mr. Zwane coordinated liaison with other bank staff who are responsible for the mortgage and microloan portfolios. Most of the demarcation was by geographic region. So, the consulting team had different contact points in each of the three provinces where NEDCOR has run its schemes, namely Gauteng, Kwa Zulu Natal, and Western Cape.

Mr. Zwane facilitated the consulting team's contact with companies involved in the microloan product across all three provinces. These introductions were necessary for two reasons. First, in some cases it proved to be convenient to interview some microloan borrowers at their places of work. Second, the consulting team wanted to assess the performance and contribution of some of the companies involved in the programme, since their cooperation is so critical at several points in the loan process. Companies often pass on the income and affordability information to the bank. They, along with the workers' unions, advertise and market the microloan scheme. Also, they provide the payroll deduction facility that is so key to timely and regular loan repayment. So prior arrangements with companies were necessary.

The assessment process used three different types of mechanisms to ensure representivity and credibility:

1. Random and independent selection of individual borrowers from the bank's master list ensured entirely objective selection of potential interviewees. This random sample of borrowers reflected the demographic, product, and the qualifying criteria set out in the agreement with USAID (e.g. income requirements, gender and the date of the transaction).

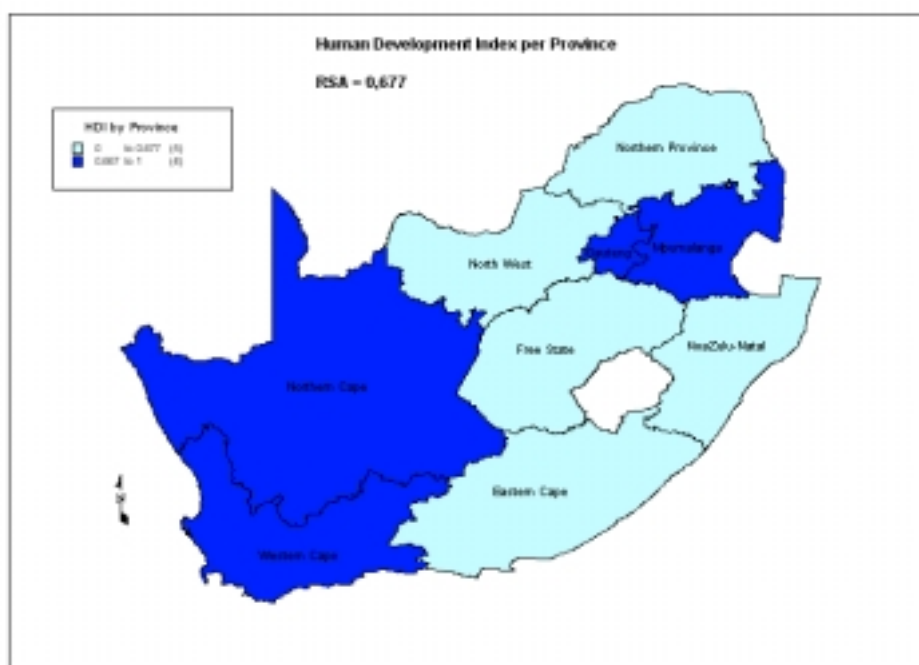
2. The loan files for all 342 randomly selected borrowers were reviewed. This included review of the original application, supporting documentation, repayment history etc. The purpose of this phase was two-fold. On one hand, it allowed the consulting team to satisfy itself, through review of documentary evidence, that indeed the loans NEDCOR indicated it had made, had indeed been disbursed. On the other hand, this process allowed the consulting team to make a first level determination as to whether eligibility criteria (e.g. income, race, location, etc.) had been adhered to.
3. Then, finally, the consulting team conducted two types of interviews among 251 of the original lot of 342. Once again, this subset of 251 reflected the diversity of clients among the entire portfolio. In most cases, micro- loan borrowers were interviewed at their place of work, while mortgage-loan borrowers were only interviewed in their homes.
4. This final level of assessment provided visual proof of loan usage and other eligibility measurements. It also provided a forum in which the consulting team could glean the necessary details to complete the socio-economic and developmental analysis.

## **4 GENERAL OVERVIEW**

### **4.1 Human Development Index**

South African Human Development Index (HDI) has been above .67 since 1991 for provinces such as Gauteng, Mpumalanga, Northern Cape and Western Cape. It has been between 0 and .67 for the Eastern Cape, Free State, Kwazulu Natal, Northern and North West Provinces. Provinces with lower HDI coincide with the former homelands of Transkei (Eastern Cape), Venda (Northern Province), Bophutatswana ( North West) and Kwazulu Natal.

**Figure 2: Human Development Index for South Africa**

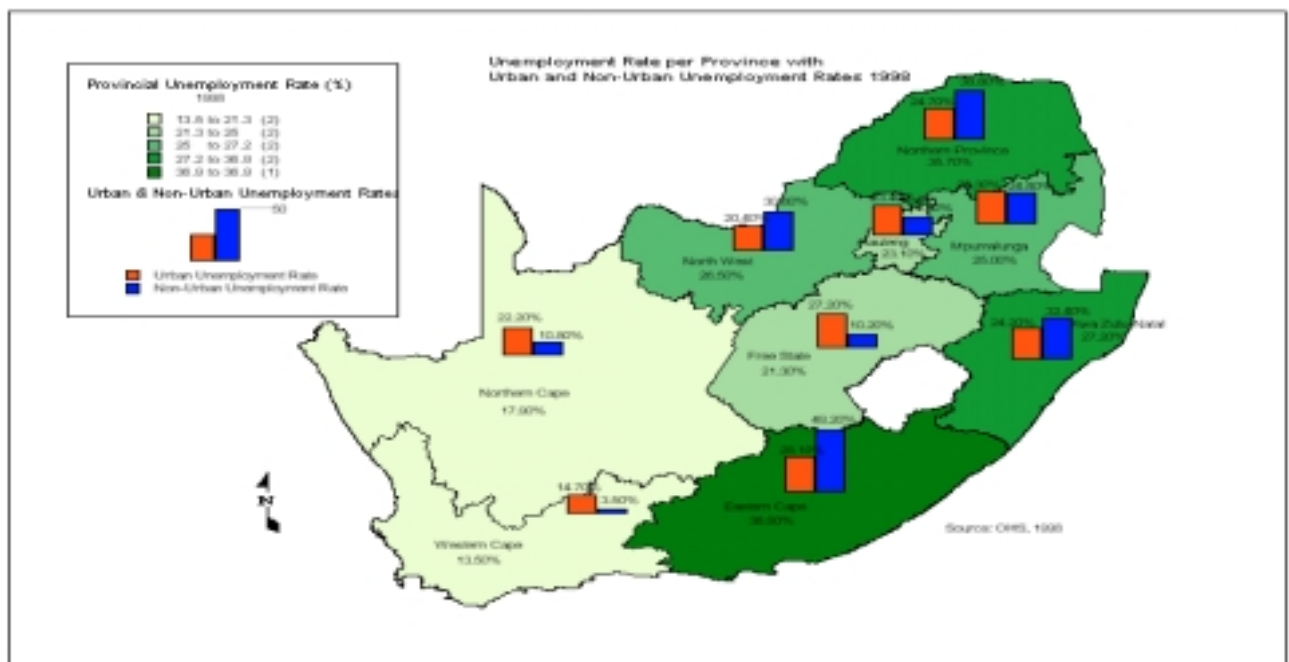


Of all the provinces subject to this study, Western Cape followed by Gauteng are the provinces with the highest HDI.

## 4.2 Unemployment

The level of employment in South Africa is not evenly distributed. In 1998, two provinces, Western Cape and Northern Cape had respectively a level of unemployment of 13.5% and 17.5%. In second position were the provinces of Free State and Gauteng with respectively 21.30% and 23.1%. Mpumalanga and North West had respectively 25% and 26.5% unemployment rate, Kwa Zulu Natal and Northern Province had each 27.2% and 35.7% and finally Eastern Cape had the highest unemployment rate with 36.9%. Although there seems to be some improvement in some provinces relative to 1991, the unemployment situation is still very serious. This is valid in urban as well as in rural areas.

For a Government with an objective of housing the Nation, the current unemployment levels imply that more resources must be found to house those most vulnerable segments of the population (women, children and old people) which include a large percentage of unemployable or unemployed people

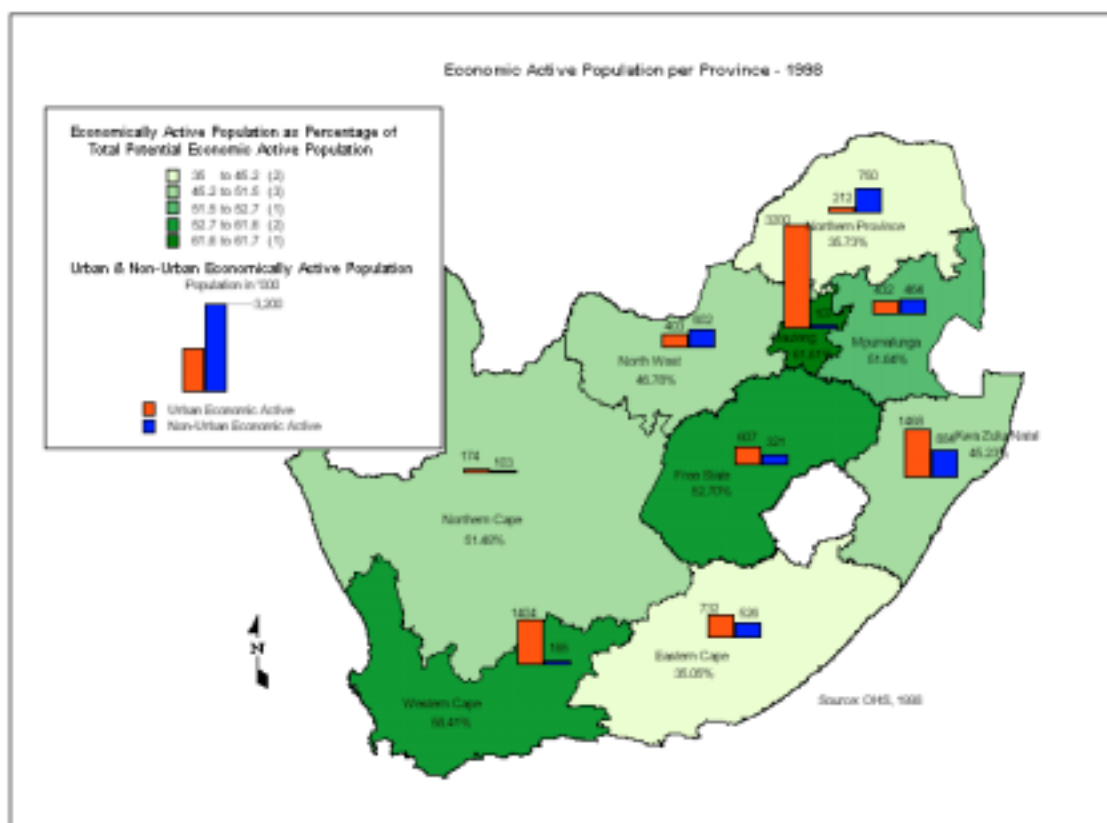


**Figure 3: Unemployment Rates per Province**

## 4.3 Economically Active Population

The other critical aspect of the current unemployment situation is also reflected in the numbers of potentially active people relative to those who are actually economically active. A good number of people who are unemployable, because of lack of skills and qualifications, cannot have access to housing or proper housing. Often many of them, because of unemployment, become homeless and victims of criminals or a breeding ground of criminal activities.

Of the potential economically active population, only Gauteng province employed more than 60% in 1998. Western and Northern Cape, and Free State employed between 50 and 60%, North West, Kwazulu Natal and Mpumalanga employed between 40 and 50% whereas Northern Province and Eastern Cape employed between 30 and 40 %.



**Figure 4: Economically Active Population by Province**

#### 4.4 Overall Housing Situation

Relative to other countries in Africa, South Africa has a much higher GDP per capita and better infrastructure development. But there are huge gaps between rich and poor. For the poor there are few sources of income. Rural dwellers are rarely able to survive off the production from their small plots. They are dependent on remittances from their family members to survive. This rural poverty forces people to leave the farms to seek out employment in big cities where they end up living in informal settlements. Informal settlements are basically squatter camps. Houses are made out iron sheets and other bits and pieces of building materials. Usually they are no planned settlements and have no running water, no electricity, no sanitary facilities and infrastructure is very poor. Houses are very small and easily overcrowded with 8 to 10 people living in a small room.

With 5.5 million living in these settlements, the government has made improving these living conditions a priority. To improve the housing situation, the government has started a housing subsidy programme to help individuals build new houses or improve their existing ones.

## 4.5 *Housing Subsidy Programmes*

To qualify for a subsidy, a person must be lawfully resident in the Republic of South Africa. Accordingly, only South Africa citizens or persons with permanent resident permits qualify for a subsidy. In order to insure that beneficiaries adhere to this requirement, a copy of a valid RSA identity document or permanent resident permit must be attached to the subsidy application form.

### *Individual Subsidies*

The individual subsidy programme was introduced in June 1995. The programme gives qualifying beneficiaries access to financial resources to acquire existing property or property not located in a project approved by a provincial housing development board. A person may also buy a serviced site and build his or her own top structure. The individual subsidy instrument caters for the allocation of subsidies on a non-credit linked basis where only the subsidy amount is used to acquire a property, or on a credit-linked basis where a home loan is also obtained from a mortgagee or non-traditional lender to buy a property.

From June 1995 to December 1999, 112,736 individual subsidies were approved, of which 11,772 individual subsidies were approved in 1999 alone.

### *Project Linked Subsidies*

Project linked subsidies were introduced in March 1994. They give individuals an opportunity to own houses in projects approved by provincial housing development boards.

From March 1994 to December 1999, a total of 1,112,558 project-linked subsidies were reserved in respect with housing projects, representing an equal number of housing opportunities where a total of 372,692 were approved for individuals who bought units in such projects. For the period January 1998 to December 1999, 153,143 project-linked subsidies were reserved and 64,479 were approved for individuals who bought homes.

### *Special Needs or Disability Subsidy*

Initially, housing subsidy scheme like any other new regulation fell short of catering for special needs. It did not provide for the specific housing needs of disabled people who are independent or wish to live independently. The Department of Housing with the South African Disability Institute reviewed guidelines for the variations of the subsidy amounts to cater for the special needs for disabled persons who apply for housing subsidies. The housing subsidy increases in accordance with special needs of the disabled persons depending on the severity and the specific need to improve the dwelling units by installing special equipment or custom designing the dwelling to suit the needs of the applicants.

### *Institutional Subsidies*

Institutional subsidies are available to institutions that create affordable housing stock to enable persons who qualify for individual ownership subsidies to live in subsidised residential properties on the basis of secure tenure. The properties are often leased, but

tenure forms based on share-block, deed-of-sale or full ownership are not excluded. On an approved project, an institution is entitled to receive R16 000 for each residential property that will be occupied by qualifying beneficiaries.

Since the implementation of institutional subsidies on 1 December 1995, 30 711 subsidies have been set aside in approved projects. By 31 December 1999, 24 670 had been approved in respect of individual beneficiaries who had concluded an agreement with the institution.

#### *Relocation Subsidy*

Government provides a mechanism to stabilise the housing environment called relocation subsidy. The relocation assistance is based on the Record of Understanding between the Government and the Association of Mortgage Lenders. In April 1998, the Government and the Council of South African Banks signed a revised Record of Understanding, known as the “New Deal”. In order to increase the development of the right sized properties a special public company, called “Thubelisha Homes” was established.

Relocation assistance provides an opportunity to obtain affordable housing with the assistance of the housing subsidy. For this purpose, a person who is eligible for relocation assistance is required to enter into an agreement so as to relocate to an affordable housing.

Up to December 1999, 4700 rightsizing agreements had been concluded.

#### *Discount Benefit Scheme*

The Discount Benefit Scheme promotes home ownership among tenants of State-financed rental stock, including formal housing and serviced sites. In terms of the Scheme, tenants receive a maximum discount of up to R7 500.00 on the selling price of a property. Often the discount equals the selling price of the property, which is then transferred to the tenant free of charge.

Approximately 1 000 000 households qualified for assistance under the Discount Benefit Scheme. To date, a total of 323 748 beneficiaries have participated in the Scheme and 85 891 of this total were assisted during 1999.

#### *Consolidation Subsidies*

People who received housing assistance from the Government in the form of ownership of serviced sites (including sites under the auspices of the Independent Development Trust) before the inception of the Housing Subsidy Scheme, may apply for a further benefit from the Government to improve their housing circumstances. The consolidation subsidy is granted for the provision or upgrading of a top structure on such a site.

## **5 OVERVIEW OF THE SURVEYED PROVINCES**

### **5.1 Gauteng**

#### *Overview*

Gauteng is the smallest province in South Africa in physical terms, but has the largest economy and the second largest population. Gauteng is a cosmopolitan area with a population of 7.3 million (Statistics South Africa, 1996 figures), with a literacy rate of 92.91%. Approximately 55% of the population is male. By South African standards, the population is relatively old, implying that population growth in the future will be fed more by migration than by natural growth. This will be especially true if the HIV-AIDS epidemic continues to make more victims in the younger age groups as it is today. Health and education statistics are better than the national averages, with the result that the HDI is higher than the other provinces, with the exception of the Western Cape.

Personal income per capita is almost R20, 000 per year. Although the per capita income is nearly double the South African average, some 21% of the population live in poverty, illustrating the skewed distribution of income and assets that is so typical of the overall South African situation.

#### *Employment*

In 1994 more than 75% of the potentially economic active population was economically active, indicating a high participation rate relative to the rest of South Africa. At 28.7%, the unemployment rate indicates that, like the rest of South Africa, the Gauteng economy is unable to accommodate the new entrants and the existing unemployed in the economy. Available statistics indicate that the rate of unemployment dropped to 23% in 1998. This may be a good sign of a recovering economy but the situation is still very serious.

#### *Sources of Credit*

The potential market in housing and consumer finance has been well serviced by the microlending industry. Recently the industry has grown tremendously with the lifting of the ceiling to the Exemption to the Usury Act from R6, 000 to R10,000, the creation of Micro Finance Regulatory Council (MFRC) and the resulting formalisation of the sector. The cash lenders or the short- term lenders and the term lenders are very active in the market. Although these may not affect directly the housing market, they however impact negatively on the affordability of low- income people whose borrowing capacity is already extremely limited.

New creative ways of addressing issues related to housing low-income people started to emerge after 1994. Instead of refusing to lend to people in places that were formally redlined, banks especially NEDCOR is lending to people in townships. Instead of repossessing houses of people who defaulted, new arrangements with the banks are taking place where a lease-purchase agreement is signed between the defaulting client and the bank.

Commercial banks used to emphasize savings facilities for low-income people. Today, provident fund backed employer-based housing schemes have become one of the most lucrative low-cost housing business. This market attracts all kinds of lenders from NGO's to privately owned housing companies to banks. The transaction cost is very limited for both the lender and the borrower, loans are guaranteed with liquid cash while most of the client handling and screening activities are undertaken at the employer's level. More importantly, the lender does not handle cash nor does he or she deal with collection. All the repayments are activated between the lender's account and the employer's account.

### *The Borrower*

The bulk of the people interviewed were individuals who live in the townships, in municipal housing, who have either purchased the houses under the 99 year lease hold or have been given the houses under the new dispensation. Most of them borrow to buy or build, improve or extend the house.

There are lots of migrant workers who still have deep ties with their rural areas. Migrant workers usually stay in single sex hostels or informal settlements in the cities. They normally borrow money to build homes in their homesteads, rather than in the cities. These are more likely to be micro-loan clients instead of mortgage loan client because, even if they could afford it, they may not qualify for a mortgage loan, since people in the rural areas do not have freehold title to the land. Banks still cannot lend or finance a house built on the communal land that is without a title deed.

## **5.2        *KwaZulu Natal***

### *Overview*

KwaZulu-Natal is the most populous province in South Africa, with a population growth rate that is higher than the national average<sup>6</sup>. As the province covers only 7.5% of the surface area, the population density is the second highest in the country.

The functional rate of urbanization is however, lower than the national average, thus the rural areas have a higher population density. Personal per capita income is lower than for the rest of the country, leaving 62% of the population of the province in poverty.

Literacy (84%) is higher than the national average while life expectancy is comparable with the national average and dropping. The result is that the HDI is considerably lower than the average for South Africa as a whole.

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<sup>6</sup> Recent unofficial estimates indicate a leveling or perhaps even a decline in population growth, mainly attributable to the high incidence of HIV and AIDS in the province.

### *Employment*

Approximately 56 % of the population is economically active, while the low labor participation rate can be ascribed to the relatively high proportion of women who are either engaged in subsistence agriculture or supported by relatives who work elsewhere.

The province has a comparative advantage in employment in the manufacturing and service sectors. As has been the case in South Africa as a whole, the economy of KwaZulu Natal has become less dependent on agriculture and mining over the last decade. Unfortunately, the economy of the province has also become less labor intensive.

Kwa Zulu Natal is dominated by heavy duty industries employing mainly men from the rural areas, who reside in single sex hostels in the urban areas and return to the rural areas on a regular basis to see their families.

### *Sources of Credit*

The most prominent supplier of financial services to poor people is the Ithala Development Finance Corporation. They operate out of 39 branches of which 13 are in the deep rural areas, 16 in small rural towns and 10 in larger urban areas. They have 800,000 savings clients and a savings portfolio of R500 m. Get Ahead Foundation is a prominent national NGO operating in the area who, along with a few small local NGOs, provide financial services, mostly in urban areas. Agricultural Cooperatives and the Sugar Association also provide financial services to small farmers in the province. The Financial Aid Fund of the Sugar Association has approximately 30,000 clients.

Kwa Zulu Natal is relatively well serviced by suppliers of financial services when compared to other provinces. However, although savings clients number nearly half of the total economically active population, very few clients also have access to loans. One reason is that Ithala is not registered as a bank and therefore cannot risk any funds mobilized through deposit facilities in the provision of loans. Very few clients have access to comprehensive financial services.

### *The Borrower*

There is a distinct difference trend among NEDCOR borrowers in Kwa Zulu Natal. Black borrowers tend to take micro loans to upgrade or build houses in rural areas. Indian borrowers take micro loans to upgrade their houses or to purchase municipal housing that was put on sale.

Due to segregated and unequal education, the Indian borrower is literate and informed compared to the African borrower, who in many cases is illiterate and uninformed. In addition, most black African borrowers have dual residential status. This spreads their income very thinly between rural and urban households. Managing and paying off a loan may also be hindered by such arrangement.

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<sup>7</sup> Recent unofficial estimates indicate a leveling or perhaps even a decline in population growth, mainly attributable to the high incidence of HIV and AIDS in the province.

### **5.3 Western Cape**

#### *Overview*

The Western Cape is spatially the fourth largest province, covering 11% of the total surface area of South Africa. The population at 4 million is the fifth largest concentration of people in the country and the province has a below average rate of population growth.

The source of growth in population is based more on migration than on natural population growth due to the old age structure of the Western Cape's population. The level of functional urbanization is the second highest in the country at 89%. The literacy rate is the highest in the country and the province also has the highest life expectancy at 68 years. Personal per capita income is the second highest, although there are an estimated 600,000 poor people in the province, of whom nearly half are children.

#### *Employment*

The economically active proportion of the province's population is high at 73%, while the rate of unemployment is the lowest of the nine provinces. The economy of the province grew more concentrated as a result of the growth of the finance and services sector. The largest economic sectors are, in order of size, manufacturing, commerce, community and social services, finance and business services. Agriculture plays a large role in the provincial economy because of its export orientation. The Cape metropolis powers the economy of the province by contributing no less than 73 % of total production and 63 % of total employment. The backbone of the rest of the economy is the agricultural sector, which provides 38% of the employment opportunities in the rural areas of the province. Consistent growth has been experienced in agricultural employment since 1980. However, the structure of employment has changed since 1985. The use of seasonal workers has expanded faster than the use of permanent employees. Further, a significant shift towards capital intensive technology is apparent. A main characteristic of the Western Cape agriculture is stability of production due to a conducive climate and good support structures.

#### *Sources of Credit*

The Western Cape has no parastatals engaged in microfinance. However, a myriad of NGOs operate in the Cape Metropolis. CashBank, a mutual bank emphasizing housing loans is also active and successful. Commercial banks once again emphasize savings facilities to the poorer communities, while loan facilities are limited.

Basic municipality housing was provided to almost all Colored and Asian people, and very little was provided for African people, as the thinking during the apartheid era was that African people were to remain largely migrant laborers and transient tenants. Only a few were to stay in the urban areas to render services that Colored and Asian people were not eager to provide.

The legacy of this arrangement still prevails – 17% of a total population of 4 million

consists of Africans; and very few are employed. Those who are employed are mainly in steel or steel related industries and form the bulk of the lower paid labour force .

### *The Borrower*

In general, the Western Cape has high levels of literacy emanating from compulsory education that Colored and Asian people had in the past. Thus, when NEDCOR and the borrowers' companies conduct life skills courses, which include financial management and credit finance agreements, the borrowers are able to better absorb and understand the lessons. This means that NEDCOR's microloan borrowers, although poor, are well informed on how the loan scheme works. This enables them to enter into a contract that they fully understand. The gender mix in the Western Cape is proportionate to the general population, as most industries are textile, plastic and rubber goods producers and they have no particular gender preference – in contrast to Gauteng, for example, where a predominance of men is found in the mines.

The relatively high level of welfare attained in the province has resulted in an inflow of large numbers of migrants, especially from the Eastern Cape, in the past decades. The resulting population growth and the poverty profile of most of the migrants are putting pressure on the social support systems, especially in the Cape Town metropolitan area.

Most micro loan borrowers in this province have municipal houses, or parents who have municipal houses. This makes it easy for them to build on what they already have and increase the equity of their properties.

## **6 SOCIO-ECONOMIC AND DEVELOPMENT ANALYSIS**

In terms of differentiation within the “historically disadvantaged group”, one could safely say that the overall scheme fairly targets the different levels within the target group. The mortgage scheme enables those at a higher level (mostly with secured employment and subsidies) to buy a house while the micro-loans target the lower end of the market.

Benefits under mortgage scheme are:

- First time buyers are able to access the financial market to help them meet a basic need;
- They build a credit history;
- They are building their asset base for future borrowing primarily for blacks who were not allowed to own houses;

The micro-loan scheme empowered those at a lower end to also buy or build affordable houses. It also enabled them to buy household goods or extend their houses. In addition, their understanding of the financial sector is getting better and better. This is demonstrated in the increasing level of demands and the pressure they are putting on the bank.

With the increase in the financial service providers and their marketing effort, the education role of the loan administrators at the company levels, the borrowers are better informed about loans products. They are becoming more demanding of the banks, questioning the

interest rate they are being charged, the time it takes for the bank to approve the loans, the regularity of their bank statements and the possibility of obtaining other loans.

There is general satisfaction amongst the borrowers with the loan scheme and the service that they get from the banks. This is reflected in comments such as:

- “This is my fourth loan. I am no longer nobody. I now have credit references. It means a lot to us since my husband has been unemployed for a long time.”
- “It makes a big difference moving from a shack to a house with more space for children to play and privacy for us, parents”.
- “We now have a place of our own, a place we can call home for us and our children”.
- “I was staying in a shack and I feel proud that I was able to buy a house.

In some cases the loan scheme enabled children to buy their parents a house before getting married. This is a very important feature in extended families, which characterised the target group. In other instances the loan empowered young women to buy houses within a walking distance from their workplace. This is an important consideration because it ensures safety for women.

Many borrowers experienced serious economic pressure, due to the increase in interest rates<sup>8</sup>, which raised their monthly payments. However there was no sense of regret in having bought new houses or repaired their old houses. There was a general realisation that owning a house was a satisfaction of a basic need, which the borrowers would not have been able to access without the loan scheme.

## **6.1 General Profile**

Of the 342 borrowers chosen for interviews, 251 were actually visited and 233 were interviewed and their individual files were reviewed. The 111 not included in this analysis either were not available because working on a night shift, absent at work, or on leave, or away from home, or the borrower proved uncooperative in completing the survey, or their files were not available for review, or else they fell outside the range of the investigation parameters. There were 53 women (23%) and 179 men (77%), which reflected the gender distribution for the entire portfolio as can be seen in table 4.

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<sup>8</sup> Although mortgage and prime rates have begun to settle into the mid-teens, in 1998 interest rates peaked around 25% and 26%. For first time borrowers, who are generally very early in their loan and mortgage repayment cycles, when interest comprises most of the amortized repayment, this meant a jump of 30% to 50% or more in the amount they had to pay in each given month. For people already living on the financial margin, this created some severe hardships.

**Table 5: Gender and Marital Status Matrix of the Interviewees per Loan Type per Province**

	GP		KZN		WC		Total
	M	F	M	F	M	F	
MI	59	11	70	8	15	18	181
MO	15	4	9	6	11	6	51
Total	74	15	79	14	26	24	232
M	60	7	54	3	21	12	157
S	7	5	22	6	4	7	51
D	5	1	3	3	1	4	17
W	2	2	0	2	0	1	7
Total	74	15	79	14	26	24	232
GP	74	15	0	0	0	0	89
KZN			79	14	0	0	93
WC					26	24	50
Total	74	15	79	14	26	24	232
Male	74	0	79	0	26	0	179
Female	0	15	0	14	0	24	53
Total	74	15	79	14	26	24	232

### *Marital Status*

Sixty eight percent (68%) of the respondents were married. However, 34% of women were single women while 18% of men were single. Correspondingly amongst married people, 86% were men and the rest were women. Overall 75% of men interviewed were married against 42% of women. However one important fact to note is that of the 53 women interviewed, 31 or 58% were either single, divorced or widows. In contrast, only 44 of the 179 men, or 25% were either single, divorced or widowed. The high concentration of single women is explained by the fact that in South African culture, the men is more likely to be employed and would be a borrower in a household. Therefore most women borrowers would be more likely unmarried.

### *Family Size*

See Overleaf

**Table 6: Respondents per Loan Type, per Marital Status and per Family Size**

		Loan Type		Marital Statue				Family Size		
PROVINCES	Total	MI	MO	Married	Single	Divorced	Widow	None	up to 3	Up to 6
<b>Females</b>										
GP	15	11	4	7	5	1	2	5	6	4
WC	24	18	6	12	7	4	1	4	15	5
KZN	14	8	6	3	6	3	2	8	5	1
Subtotal	53	37	16	22	18	8	5	17	26	10
<b>Males</b>										
GP	74	59	15	60	7	5	2	15	35	23
WC	24	15	9	21	4	1	0	25	14	7
KZN	81	70	11	54	22	3	0	6	32	21
Subtotal	179	144	35	135	33	9	2	46	81	51
<b>Overall</b>										
GP	89	70	19	67	12	6	4	20	41	27
WC	48	33	15	33	11	5	1	29	29	12
KZN	95	78	17	57	28	6	2	14	37	22
Total	232	181	51	157	51	17	7	63	107	61

Table 5 shows that the majority of respondents were married with varying degree of family responsibilities. The 31 unmarried women each had between 1 and 6 dependents. Therefore, access to credit for these single women is critical as they are the main provider in the family.

Contrary to women, most men were married. Out 179 men, 135 or 75% were married and 168 or 94% had family responsibility between 1 and 6 dependents.

#### *Loan usage*

<b>Table 7: Micro loans</b>							
PROVINCES	Purchase	Build	Improve	Household	Family	Other	Total
<b>Females</b>							
GP	1	4	5	0	0	1	11
WC	5	0	8	4	0	1	18
KZN	0	0	6	0	1	1	8
Total	6	4	19	4	1	3	37
<b>Males</b>							
GP	2	25	24	2	2	4	59
WC	4	0	11	0	0	0	15
KZN	2	17	42	0	1	8	70
Total	8	42	77	2	3	12	144
<b>Overall</b>							
GP	3	29	29	2	2	5	70
WC	9	0	19	4	0	1	33
KZN	2	17	48	0	2	9	78
Total	14	46	96	6	4	15	181

Contrary to the belief that micro-loans are used for incremental housing, more and more people are using them to buy houses. In this instance 16% of female borrowers used their loans to buy houses against 5% of male borrowers. Overall 7% of the respondents used their loans to purchase houses.

Micro-loans are usually defined to be small and short term. Because of the nature of micro-loans, with the pension or provident fund as liquid collateral, NEDCOR, has become flexible in the amounts as well as the terms of micro loans. Their sizes and terms are approaching those of the mortgage-loans. With micro-loans payable over periods as long as 15 years, clients are using them to buy houses. Thirty three percent of the respondents used their microloans to buy or build houses. But the bulk of the microloans, 53%, were used for housing improvement or upgrading. Overall 86% of the respondents, 78% of female borrowers and 88% of male borrowers used their loans to purchase, to build a house and to upgrade their houses. The balance of the loans, 14 % served to purchase household items or to satisfy other family needs. In instances where the provident fund rules seem to be in breach, employers instead of the provident fund guaranteed borrowers.

By virtue of the Provident Fund or Pension Fund (PF) rules, loans granted using PF as a security can only be used for housing or shelter related activity and financing education. However, the survey of micro-loan clients revealed that other items were bought using micro-loans. This represents exactly 21% of the loan usage for female borrowers 12% for male borrowers. Loans used for other things than housing were for purchasing household items, school uniforms, school fees, or buying a car in some instances.

#### *Mortgage Loans*

Table 8: Mortgage Loans

PROVINCES	Purchase	Build	Improve	Household	Family	Other	Total
Females							
GP	4		0	0	0	0	4
WC	4	0	2	0	0	0	6
KZN	6	0	0	0	0	0	6
Total	14	0	2	0	0	0	16
Males							
GP	15	0	0	0	0	0	15
WC	8	2	1	0	0	0	11
KZN	9	0	0	0	0	0	9
Total	32	2	1	0	0	0	35
Overall							
GP	19	0	0	0	0	0	19
WC	12	2	3	0	0	0	17
KZN	15	0	0	0	0	0	15
Total	46	2	3	0	0	0	51

Unlike micro-loans, mortgage-loans were used for housing and housing related activities in 100% of the female as well as the male respondents. If the loans were not used to purchase houses (90%), or to build houses (4%), they were used to finance house improvement or upgrading (6%).

### *Loan Size*

Overall, the average loan size for the sample group was R22,351 (about \$3,200). Average micro-loan size was R12,225, while the average mortgage loan was R43,626. However, analysis of loan type and income shows an interesting result: the average income<sup>9</sup> for the two groups is very close. For microloan borrowers average household income was R2,418, while the same figure for mortgage loan borrowers was R2,533. In families with more than one income where either spouse work, or one of them works along with one of the children or other members of the family, they divide responsibilities of the family expenses. A great proportion of one salary is spent on paying off the loan while some body else in the family is taking care of food, water and electricity, etc.

### *Ability to Pay off the Loan and to Continue a Normal Life*

Another finding of the survey is the ability of the borrowers to acquire additional assets while paying off their loans. Those with additional income to acquire new assets were evenly distributed amongst the female borrowers where 51% of them claimed that after loan repayment they were left with enough money to acquire other assets. The picture is different for male borrowers where only 45% declared that they could afford to acquire other assets with money left after paying off their loans.

## **6.2    *Improvement in Access to Services***

Respondents' access to basic services such as telephone, water and electricity, toilet facilities, transport, medical facilities, shopping centres and schools, is above the national average. This is mainly due to the fact that they live in relatively urbanised environment.

To verify this, borrowers were asked their opinion with regard to the availability and the accessibility to basic services relative to what they were before the loans.

As illustrated in table 7 below, the loans helped people:

- Move to a more secure place;
- Upgrade their houses to more comfortable standards by expanding the size and improving the living space for family members;
- Move from an shack to a house;
- Have a house with indoor plumbing and electricity;
- Access better schools, medical facilities and transport.

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<sup>9</sup> Note that income includes base salary and overtime.

Table 9: Improvement in Access to Services

Services	Females	Males
House	57%	72%
Water and Electricity	22%	83%
Toilet Facilities	14%	40%
Medical Facilities	17%	34%
Transport	20%	29%
Shopping Centres	14%	22%
Schools	16%	23%

The above table depicts the tangible benefits of the programme. Both USAID and NEDCOR should be proud of having helped improve access to these services. The benefits are far reaching.

- For children whose future may be better prepared than their parents' because they go to better schools, they have healthier environments with sanitary facilities and access to potable water and they can study comfortably in a lit house as opposed to a smoky shack.
- For women whose domestic responsibilities in addition to their daily income generating activities are facilitated with electricity and water in the house and the possibility of acquiring energy and time saving equipment to free them for other activities.
- For all the beneficiaries of the programme, who managed to access all the above facilities, that in modern time people tend to take for granted.

Access to a telephone was better before the loan. Around 67% of respondents indicated that they had a telephone of their own in their homes. However, after the loan that figure dropped to 55%. Although this level of access is still better than reported averages for this market segment nationally, the 12 points drop is significant and may be due, as indicated by some borrowers, to different priorities. Now that people managed to get a better house, the priority may be to furnish it rather than keeping servicing access to a telephone.

### **6.3 Improvement in the Quality of Life**

There was a general sense that borrowers' lives had improved because of their access to the home loans. This was evident when borrowers said that their previous homes did not have bathrooms, indoor plumbing or electricity inside the house. Those who lived in shacks before buying houses expressed their pride and happiness. Indeed, the improvement of the quality of their lives was more evident.

For many, the new houses opened up opportunities for buying electrical appliances which were more economical in terms of time and energy, than other methods. Moving to townships or suburbs with basic infrastructure also meant that it was easy to access telecommunication facilities and other social amenities proper to modern towns.

In case of married couples, purchasing a house enabled the borrowers to develop their own space and privacy with their immediate family and enhanced their sense of control over their

lives. The access to loans also enabled young workers to assist their parents with household needs while they were busy planning to buy their own homes in the future.

Single borrowers particularly unmarried women (never married, divorced or widows), benefited from the loans as they could, for the first time, own their own house and live with their children without feeling economically dependent on anyone. This applied both to when they bought new or their parents' houses.

Overall respondents' assessment of the impact of the loans on their lives has been rated very high in 90% of the respondents, be it they micro-loan clients or mortgage loan clients, or female or male clients.

#### **6.4 Affordability**

In two previous assessments performed by ECI, a frequent observation has been that “most borrowers could barely survive on their salaries”. This time, the opinion of the borrowers has dramatically changed. An observation across the loan type, the gender and the provinces revealed a new picture in sharp contrast with previous findings as it is illustrated in Table 6 below. This may even seem to be a contradiction with the previous paragraphs where the issue of the borrowers' ability to pay off the loan and to continue to lead a normal life was raised.

Table 10: Respondents Affordability per Loan Type and per Province

PROVINCE				Total	MI	MO	Micro Loans	Mortgage Loans				
Females							Affordable	Not Affordable	No Answer	Affordable	Not Affordable	No Answer
GP	15	11	4		10		1		0	2	1	1
WC	24	18	6		16		2		0	5	1	0
KZN	14	8	6		8		0		0	5	1	0
Subtotal	53	37	16		34		3		0	12	3	1
Males				0								
GP	74	59	15		49		6		3	11	4	0
WC	24	15	9		13		2			9	2	0
KZN	81	70	11		63		7		0	8	3	0
Subtotal	179	144	35		125		15		3	28	9	0
Overall				0								
GP	89	70	19		59		7		3	13	5	1
WC	48	33	15		29		4		0	14	3	0
KZN	95	78	17		71		7		0	13	4	0
Total	232	181	51		159		18		3	40	12	1

Generally borrowers seem to be comfortable in paying off their loans. More than 85% of the borrowers expressed the opinion that their loans were affordable. When seen across gender lines, women seem to be more comfortable than men with 87 % indicating that their loans are affordable, against 85% of men. Seen across the type of loan, 80% of men claim that mortgage loans are affordable when only 75% of women say the same. By contrast 92% of women indicated that micro-loans were affordable while 86% of men were saying the same.

Using data collected during the file review process to confirm respondents' opinion, we concluded that the majority of the borrowers considered their loans to be affordable. This is done deducting from the gross salary (without overtime, special pay or bonus), all the deductions and the family expenses and dividing the projected monthly installment by the net obtained. If the quotient is 25% or less, the loan is considered affordable. If the quotient is greater than 25%, the loan is not affordable.

This method revealed that 59% of the files reviewed passed the affordability test. It is worth noting that there is a time lag between the period when information contained in the file was compiled and the time of the survey. Looking at the general trends of the economy with a lower inflation rate and reduced interest rates following a long period of uncertainty, the respondents' opinion expressed in the survey may be a reflection of the general mood in the economy.

Also the period under review includes months where loans were granted at rates 10 points higher than today's rate. It is therefore normal that feeling about the affordability of their loans improves as the rates improve.

With the education of regular borrowers and through frequent contact with the loan administrator at the company level, the regular borrowers are better educated about borrowing, and have access to more information. In addition, they are protected against unscrupulous lenders by the loan administrator, who controls access to the clients

Of the 8% who considered their loans not affordable, many were retrenched, or received early retirement because of ill health or some disability and are no longer in a position to face monthly repayments, contracted other debts or were not truthful about their income and expenditure conditions.

## **6.5     *Interest Rates and Credit Education***

Understanding the banking business is not an easy thing even for the most educated people with a lot of banking experience. The target market of this programme is composed of people with below average levels of literacy and numeracy. Their understanding of the functioning of the bank is still very limited.

If they do not understand, it is not for lack of trying. They have so many questions. Borrowers are becoming more demanding and intransigent. They are aware of the forces at play in the market and they appreciate the best service at the best deal they can get.

The consulting team encountered several clients' complaints regarding interest rates and financial services and products they were not happy with. The following are some of the concerns raised during the survey:

- There is no relationship between the account kept at the company level and the bank statement. The company deducts regularly my repayments but the bank does not.
- "I have been paying my loan regularly but the amount at the beginning is still the same 10 months later";
- "The Interest rate is too high especially when the company has arranged with the bank

to lend me my own money”;

- “I do not receive regular monthly statement”;
- “Who do I talk to if I need another loan?”
- “The bank promised to give us personal loans claiming that the time to process the application is 48 hours. This is now the second week and we are still waiting”;
- “When I go to the nearest branch they always send me to the bank where I opened the account. Why can’t I get service at the branch near me.”

The target segment of the market for this programme has special needs and therefore it has to be handled differently from other borrowers. The most important concern for the borrowers is getting the money, not understanding how the the bank works. When there is no suspicion of fraud or unfair treatment, everyone is very happy. A bit of suspicion and everything will be questioned. Currently they are treated like any other clients. No special efforts are made to ascertain that they understand. Borrowers’ education and loan aftercare and their assessment need to be followed up to better understand the clients and their needs.

## **6.6     *Issues for Nedcor***

The People’s Bank’s current management style by objective incites staff to push volumes. It is on this basis that the Staff is incentivised. It does not encourage staff to go back to ascertain that they are providing the right service and products to the clients. People’s bank underwent several months of transformation due to its restructuring, centralisation and now the new joint venture with Capital One. All of these were disturbing moments which impacted negatively on the bank’s performance.

The centralisation of the bank's administration system to the head office seemed to cause many problems with regard to the capturing of the particulars of its clients. It reduced the responsibility of correcting mistakes of the data from the provincial offices where the clients were based and made the capturing of the customers' information impersonal. This affected the research as some of the key particulars such as addresses and telephone numbers of the customers were not accurate.

## **6.7     *Co-ordination with Other Service Providers***

There are many players involved in securing the loan, i.e. the bank, the insurance company, the estate agent, the company, the PF, the municipality, national government (for the capital subsidy), the private seller and the developer (in some cases), and lastly the borrower. These middlemen can be very frustrating to the borrower. For instance:

### *Estate Agents*

Some estate agents took almost a year to facilitate a transaction between the bank and the borrower. The fact that there were so many role-players meant that the process of securing the scheme took longer than necessary.

### *Employers*

Some workers were caught up between the company they were working for (sometimes there is a lot of mistrust and unsound industrial relations) and the bank. When the company submitted all borrower's payments to the bank late, the burden of paying the interest fell on the borrower. It was strange to notice that the unions were often ignored in the relationship, as they can enhance or hinder the success of this partnership. In cases where there were serious defects in the house, which was sold by a private buyer (through an estate agent), the borrower was usually left on his/her own with empty promises from the estate agent.

### *Insurance Companies*

Most of the borrowers trust that the bank staff is there to help them. Since many of them had never had access to financial services, they are ready to do anything asked provided that they get the loan. Any explanation given to the borrowers in terms of homeowners insurance is given for the good of the borrowers and they agree. The bank should therefore make sure that any deal facilitated by the bank staff while making the loans should be honoured by the party in whose behalf the bank acted. After all it is also in the best interest of the bank for the house to be properly maintained since it serves also as a collateral for the loan. Often clients are caught between the bank and the homeowners insurance.

When finally, the insurance accepted to do the necessary repairs in case of default, it is up to the good will of the contractor to determine the level and the quality of the service to be supplied. As people are not often sophisticated, unscrupulous contractors take advantage of them. During the survey in Cape Town, the Consulting Team met a contractor who was repairing a new house whose geyser had been defective and leaking in the ceiling. Instead of replacing part of the ceiling that was rotten, the contractor only promised to renew the paint on the ceiling.

## **7 SECTOR ANALYSIS**

### ***7.1 Trends in the Banking Industry***<sup>10</sup>

The small and medium enterprise market is growing and assuming increasing importance worldwide, giving rise to a change in the nature of work. There is a move away from the idea that people are unemployed until someone else gives them a job. Almost 95% of new jobs being created globally are in small business and informal sector.

As a result, the banking industry has had to adjust to meet the needs of this expanding market, which demands an entirely different service from traditional markets. Until now the main emphasis has been on granting loans. Without disregarding their importance, the accessibility of information and convenience of transactions is now becoming a prime area of focus.

The key for people in this sector is convenience banking, which goes beyond simply extending business hours. The fact is that these people need access to information at all

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10 SOURCE: BANKING IN SOUTHERN AFRICA, BUSINESS DAY SURVEY, JULY 1998

hours and often cannot afford to come into a bank at all. There is still a great deal of people who do not know that they can access finance through the banking system.

### *A New Class of Entrepreneurs Emerges*

Black people are the big economic market of the future, which has been ignored in the past. Now big levels of activity within black groups are being seen, and that adds up to a variety of opportunities for banks that are geared to that market.

### *Stiff Competition from All Quarters*

South Africa's traditional retail banks are being forced to take drastic measures to defend themselves against competition from all quarters. The big four banks that dominate the local market – Standard Bank, First National Bank, Nedbank and ABSA – are losing market share at the high net worth end of their client spectrum. Private banking operations set up by the likes of Syfrets, BoE and Investec, as well as international players are competing with them. At less rewarding bottom end of the market, they are seeing the emergence of a rash of community banking operations. And the lower to middle-income markets are also being drawn away by banking operations set up by retailers, led by Pick'n Pay.

## **8 NEDCOR'S PERFORMANCE**

NEDCOR inherited a tradition of lending to low-income housing market when it acquired the PERM. Starting 1981, the Permanent Bank (PERM), played a critical role in the development of disadvantage communities. It granted the first home-loan in Soweto in 1981 and by so doing served as a catalyst of lending to blacks. It was also the first to lend to a black woman. As seen in section 2, the commercial banks and micro-lenders are increasingly active in the housing market. This is also true for NEDCOR.

Many creative initiatives are taking place. Now, People's Bank has restructured over the years to accommodate the needs of the low-income client. Their latest product called "People's Personal Loan" is just another initiative to better serve the market. This is just an adaptation to the needs of the market. This product exists for middle income and upper income clients in the form of personal overdraft and credit card facilities. It is still being tested. It is anticipated that the first beneficiaries will be the current micro and mortgage loan clients. The survey pointed out that people are complaining about the fact that they cannot access other types of loans for their other needs outside housing. It appears that NEDCOR is responding to this request in a manner that may satisfy the needs of the market.

There is a concerted effort, which is reflected in the resources, which are used in NEDCOR to accommodate the "historically disadvantaged groups", which the USAID partnership is enhancing.

In this specific assessment, there was a general satisfaction with regard to the service, which the borrowers experienced from the bank. Some borrowers appreciated the occasional personal visits to "**check that the clients are happy with the service**". There were others, however, who felt that the bank should still invest in a "**One-Stop Service Facility**". This would enable the client who has a problem to be assisted at one point of presenting the complaint, rather "than being sent from pillar to post as it is often the case with insurance related problems. Some of those who had received an unsatisfactory service felt that banks still favoured educated rather than uneducated clients because they get their problems solved.

Some interviewees felt that the banks' personnel lacked experience in dealing with clients who, in turn, had less knowledge about how banks operate. They felt that bank staff members should be trained on human relations, especially in dealing with a less knowledgeable client. Other borrowers felt that the bank staff made promises they could not keep and did not interact with the client sufficiently in case of a problem.

Some borrowers felt that banks should develop special loan packages that were specifically tailored to assist the low-end clients and that were different from the long-term loans. The argument was that the loans would assist the borrowers in buying household items.

Sometimes the bank delayed in implementing a debit order with the borrower and when it did (sometimes two or three months later) the bank would deduct "the arrears" in one month without communicating with the borrower. This caused a lot prejudice to the clients who were confronted with expenses they did not plan for.

### **8.1     *Impact of USAID Housing Guarantee Programme on NEDCOR***

The USAID partnership with NEDCOR is functioning reasonably well, because it falls within a broader policy in NEDCOR. NEDCOR's strategy is to target different income levels and cater for particular needs at each level. It has therefore introduced specific instruments to address specific income groups. On one hand the People's Bank, through which most of the relationships are handled in these schemes, accommodates mostly clients at the lower level and it encourages microlending as well as saving in small amounts. On the other, The Perm is structured to encourage investments, while Nedbank caters for upper income groups with various packages.

### **8.2     Overall USAID Impact**

USAID initiative to encourage private sector involvement in financing low- income housing found NEDCOR with a strong tradition of involvement in low-income housing market.

In this respect, the GNU, set the tone in terms of inviting the banking sector to unlock their resources to service the previously disadvantaged communities. Specifically, the GNU wants to make housing the nation a priority through housing policies and the means to implement them, through housing projects and programmes, and through housing subsidy policies and programmes. It is during this public and private partnership that USAID initiative took place and it was bound to be successful.

USAID used the old bank argument “that Banks cannot lend to the low-income housing sector because it was too risky and less profitable” and leveraged resources for the very sector that was not deemed profitable using purely private sector ground rules, profit. NEDCOR found the programme attractive and profitable and used it to the advantage of both the previously disadvantaged communities and the bank bottom line.

In less than 6 years, NEDCOR affordable housing portfolio increased from R1.1 billion to R3.7 billion, an increase of over 300%. Accounting for R520 million leveraged under the PSHGP and US\$ 158 million at an average exchange rate of R5 to the US dollar, that is R790 million, USAID helped contribute the third of the whole portfolio to the tune of R1.31 billion.

More importantly, NEDCOR is now in this business because it is profitable. The recent acquisition of 50% of Pick ‘n Pay financial services<sup>11</sup>, a microfinance service provider, is a proof enough of NEDCOR determination to stay in the microlending market. With the Pick n’ Pay network of 3600 points of sale in 400 stores around the country, NEDCOR will add on to its own network of People’s Bank, Nedbank and the PERM. According to Richard Laubscher, NEDCOR Chief Executive Officer, the acquisition of Pick n’ Pay would allow NEDCOR to extend its range of financial services to a wider market, and make banking more convenient for existing customers.

USAID has helped strengthen NEDCOR’s presence in this market. NEDCOR was in the market before the USAID programme, but now is certain to stay in the market. To remain in it, however, NEDCOR will need to improve the quality of its internal monitoring and loan follow-up.

## **9. CONCLUSIONS**

The BSEGP has achieved its goal of leading to an increase in ownership of sustainable and affordable shelter by low income urban households. It has empowered many previously disadvantaged South Africans at the lower end of the income level to enter the formal financial sector for the first time and to learn how to leverage additional financial sources from either loans or government subsidies. The combination of entering the formal financial system and acquiring better housing has improved the level of self worth of the clients.

The housing programme has also had a positive impact on the standard of living of most of the target population. On the one hand the great majority of the clients were satisfied with the affordability of the products. On the other hand they have also seen a real improvement in the quality of their life as measured by access to social services (schools, hospitals), improved access to utilities (indoor plumbing, electricity, and roads), and the other benefits of better housing. By owning houses with electricity, it has opened up the opportunities for them to acquire electrical appliances for the first time which are more economical in terms of time and energy. Overall, the assessment of the impact of the loans on their lives has been rated high among 90 percent of the respondents.

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<sup>11</sup> BusinessDay, August 11, 2000

At the same time, the programme has helped NEDCOR to innovate and to develop its loan products and portfolio for the target market. NEDCOR has made the loans needed to meet the conditions of the guaranty programme. In fact, they have probably far surpassed the required number and value of loans in their overall lending programme. NEDCOR continues to make affordable housing loans to individuals because they are fully guaranteed by provident funds or retirement plans in the control of the employers.

NEDCOR could improve its interaction with the clients, in particular on the front of credit education – i.e. explaining credit processes to the clients. Many of them are so starved for credit that they agree to anything, then want to understand it later, once they feel the bite of the repayments. NEDCOR's laxness in this regard is not helping either their repayment rate, nor the long-term development of the clients. As the employers often take care of much of the paperwork for the microloans, there is limited involvement by the bank staff in the process, limiting their interaction with the borrower. This latter element leads to slow reaction time on the part of the bank in the case of arrears, hence the high proportion of arrears in the portfolio.

Finally, the programme has also led to a steady improvement in improving equity in the country. It has increased access by women to small loans and has made progress in developing lending programmes in the townships. The programme has also enabled many previously disadvantaged individuals to access the government's housing subsidy programmes, providing even more leverage to the impact of the programme.

*It is difficult to assign, absolutely, the benefits of the infrastructure loans because of the way that the municipal governments manage their external finance. However, it is clear that the infrastructure that was installed has had many benefits for the population, in particular individuals who had not had access to the utilities financed. The government of South Africa is in the midst of modifying the municipal financing arrangements, with assistance from USAID, so this problem of assigning specific loans to specific activities should be resolved.*

## **9.1 Recommendations**

Though the Housing Guarantee project is now over, there are a number of recommendations for NEDCOR in ways that they can improve their own development of their low income housing loan programme.

1. **Credit education.** A recurring issue remains one of the understanding of the credit process among the clients. Credit educating of their clients about credit and its proper management remains an important service to be improved upon to build sound long term clients from these borrowers.
2. **The insurance processes.** There continues to be a lot of problems with the clients not understanding the insurance policies that required with their mortgages. If the insurance company can handle its own policies with the clients, this will hopefully eliminate the continuing confusion over who is responsible for the insurance. This will also, hopefully make the underwriting insurance companies more accountable and interactive with the clients, leading to improved service.

3. **Nedcor internal capacity.** Develop within NEDCOR the skill and the capacity to provide full banking services to low income people. NEDCOR staff are still not used to dealing with microfinance clients and often do not fully understand the additional interaction that might be necessary with them that is different from traditional banking. Improved customer service, or the realisation that these customers are the future of the banking industry, will improve the relations with the clients.
  
4. **Enterprise finance.** Even though enterprise finance is not directly tied to housing, many of the same issues arise. How does one finance economic activity that is on communal land? This is the same as how do you finance a house built on communal land, where there is no clear title. Continued research into developing new products, perhaps based on “permits to occupy” PTO, will be a step in the right direction.

# **Annex 1**

## **Questionnaire for Borrowers**

## **Annex 2**

# **Micro and Mortgage Loans file review format**

## **Annex 3**

# **USAID HIG3 Eligible Expenditure July 98 – Dec 98**

## **Annex 4**

# **USAID HIG3 Eligible Expenditure**

## **Annex 5 Case Studies**

## **Annex 6**

# **Infrastructure Finance Report**

## **Annex 7**

# **Cape Town City Council Loan Certificate**